

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING  
(PROPOSALS ONE THROUGH FIVE)

Docket No. RM2012-5

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE  
(August 10, 2012)

The Public Representative submitted initial comments in this docket on July 31, 2012.<sup>1</sup> The Postal Service hereby submits reply comments, to clarify concerns raised by the Public Representative regarding Proposals One and Four.

With regard to Proposal One, the Public Representative recommends modifying the proposal to retain separate reporting of the delivery costs of Carrier Route parcels. In support of this modification, the Public Representative states that “the Postal Service has not justified eliminating the separate reporting of the unit delivery cost of parcels in order to address the anomalous unit delivery cost of letters vis-à-vis flats.”<sup>2</sup> He also asserts that “the unit cost of Carrier Route parcels is not anomalous.”<sup>3</sup>

The Postal Service acknowledges that its proposal text does not explicitly justify the inclusion of Carrier Route parcels in the proposed weighted average. The reason for the omission is that the unit delivery cost of Carrier Route parcels is, contrary to the Public Representative’s statement, so anomalous as to be erroneous on its face. As listed in the proposal, the FY 2011 unit delivery cost of Carrier Route parcels was

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<sup>1</sup> Public Representative Comments in Response to Order No. 1388 Concerning Rulemaking on Analytical Principles Used in Periodic Reporting (Proposals One through Five), Docket No. RM2012-5 (July 31, 2012).

<sup>2</sup> *Id.* at 3.

<sup>3</sup> *Id.*

154.67 cents. For comparison, the unit delivery costs of some of the Postal Service's other parcel products over the last three years are listed below.

<b>Product</b>	<b>FY2011</b>	<b>FY2010</b>	<b>FY2009</b>
Carrier Route Parcels	154.67	184.80	192.10
Standard Mail Parcels	37.61	39.73	39.04
Not Flat-Machinables (NFMs)	18.34	20.33	26.56
First Class Single Piece Parcels	35.68	40.52	39.20
Media Mail Parcels	44.65	43.91	45.91
Bound Printed Matter Parcels	38.38	41.71	40.92

Sources: PRC-ACR2011-LR-6, PRC-ACR2010-LR-8, PRC-ACR2009-LR-8.

Carrier Route parcels are small lightweight marketing parcels (e.g., toothpaste samples) that generally fit in a carrier's satchel and customer's mail receptacle. Accordingly, the delivery cost for Carrier Route parcels should be near the lowest among parcel products. Instead, as shown above, the unit delivery cost of Carrier Route parcels is so high as to be an outlier. It is consistently over four times higher than the unit delivery cost of Standard Mail parcels, and seven to nine times higher than the unit delivery cost of Not-Flat Machinables (NFMs), which are similar in shape and size to Carrier Route parcels.

There are no operational explanations as to why Carrier Route parcels would have such high delivery costs. The Postal Service believes that the anomaly arises from the extremely low volumes of Carrier Route parcels. For comparison purposes, the recent annual volumes of Carrier Route parcels and NFMs are shown in the table below.

**RPW Volume (in thousands)**

<b>Product</b>	<b>FY2011</b>	<b>FY2010</b>	<b>FY2009</b>
Carrier Route Parcels	301	253	347
NFM	89,279	92,676	134,007

The Postal Service's cost systems are not designed to accurately measure the costs of

a low volume product that flows through the general mail stream. The small sample size of Carrier Route parcels thus results in an anomalous unit delivery cost.

Given the anomalous delivery costs of Carrier Route parcels, the Postal Service believes that Carrier Route parcels should remain in the proposal. The following table compares the end results (based on FY 2011 costs) of the original Proposal One and of the Public Representative's modified version.

**Carrier Route Unit Delivery Costs (FY 2011)**

<b>Original Version</b>	Carrier Route Letters, Flats, and Parcels	11.285
	Carrier Route Parcels	154.67
<b>Public Representative Version</b>	Carrier Route Letters and Flats	11.280

Under the Public Representative's version, two Carrier Route unit delivery costs would be reported, one of which would be erroneously high and the other of which would be only five one-thousandths of a cent different from the combined unit delivery cost reported under the original version of the proposal. Nothing, then, would be gained.

The Postal Service acknowledges that its original proposal would have benefited from an explication of why Carrier Route parcels was included. Now that an explication has been furnished, the superiority of the original proposal is clear.

The Public Representative also raises concerns regarding Proposal Four. He states:

While the Postal Service is clear that data from the IOCS non-automation and automation presort activity codes are not used for developing cost estimates, the Postal Service is silent as to whether such IOCS data is used for special studies, or its future plans. Currently, data from the IOCS activity codes that distinguish between First-Class Mail and Standard Mail non-automation and automation presort are simply aggregated for reporting purposes. Moreover, combining these separate activities codes into one will likely permit the Postal Service to reduce the number [sic] IOCS tallies necessary to obtain a statistically reliable sample for the single code. Such a reduction in tallies, while reducing IOCS costs, will

also prevent the future use of these separately reported costs for each category. Prior to deciding whether to approve the elimination of these separate activity codes, the Public Representative urges the Commission to obtain additional information [sic] the Postal Service as to whether the separately reported [sic] are used for any special studies, or other purposes.<sup>4</sup>

The Postal Service confirms that the IOCS codes at issue are not used for special studies or other purposes.

It is unclear to the Postal Service what the Public Representative intends by saying that the Postal Service is silent as to its “future plans,” and how such plans would implicate consideration of this proposal. In any case, the Postal Service currently has no other plans to modify IOCS in a way that would affect periodic reporting. Also, to be clear, approval of Proposal Four will not cause a reduction in tallies. Approval of the proposal will have no effect on the number of tallies that go into the products’ cost estimates. The only difference will be in tally coding within each product’s set of direct tallies.

The Postal Service appreciates the Public Representative’s comments and hopes that these reply comments address his concerns. The Postal Service requests that the Commission approve Proposals One through Five forthwith, before preparation of the FY 2012 Annual Compliance Report commences.

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<sup>4</sup> *Id.* at 7-8.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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